

1 Q. **Reference: Newfoundland and Labrador Hydro 2018 Cost of Service Methodology Review**
2 **Report, Appendix A – Cost of Service Methodology Review prepared by Christensen**
3 **Associates Energy Consulting, November 15, 2018, Page 10, Lines 12-15.**

4
5 *“The system load factor approach to cost classification attributes a share of generation*
6 *investment cost to energy causation based on the ratio of average to system coincident*
7 *peak production. This formulation assumes that generation investment to meet average*
8 *load should be distinguished from generation investment designed to meet peak demand.”*

9
10 In its review, Christensen discusses the load factor and equivalent peaker methodologies
11 for classifying the power purchase costs resulting from the Muskrat Falls Project, which are
12 functionalized as generation. Did Christensen review any of the other ways of classifying
13 generation costs (for example, the average and excess method)? If so, what other methods
14 did Christensen review and why were they rejected?

15
16
17 A. This response has been provided by Christensen Associates Energy Consulting.

18
19 Christensen Associates Energy Consulting is aware of the many ways of classifying
20 generation costs. In our review we considered what we believed to be the leading
21 candidates for classifying power purchase costs: methods currently used by Hydro, the
22 equivalent peaker approach, and marginal cost-based cost allocation. We did not consider
23 other approaches such as average and excess because we feel that the equivalent peaker
24 approach’s connection to system planning decisions and its ability to mimic marginal
25 costing methods rendered the equivalent peaker method preferable to others for Hydro’s
26 circumstances.